



March 20, 2017

Postal Regulatory Commission
901 New York Ave NW, Suite 200
Washington DC 20268

RE: Docket No. RM2017-3 Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products

Dear Commissioners:

LSC Communications appreciates the opportunity to provide comments relative to Docket No. RM2017-3. LSC Communications, with over 20,000 employees, is a leader in traditional and digital print and mail related services that serve the needs of publishers, merchandisers and retailers. We firmly believe that the system for regulating rates and classes for Market Dominant products, established by the Postal Accountability and Enhancement Act of 2006 (PAEA), has met its statutory objectives and should not be replaced or modified. Although all nine objectives in the statute are equally important, our comments will focus on objectives 1, 2, 4 and 5 as listed in Order No. 3673.

Objective 1: To maximize incentives to reduce costs and increase efficiency

Under the current system, the capping of postage rate increases at CPI has provided a necessary incentive for the Postal Service to reduce costs, improve efficiencies and negotiate with its employee unions in creative ways. Since PAEA was enacted, USPS has reduced its operating costs by \$14 billion.

The Postal Service can and should continue to provide incentives in the form of workshare discounts. We believe that there is room for improvement by moving many of the existing discounts to as close to 100% pass-through as is feasible. This will provide the incentive for mailer participation and further reduction of USPS costs. Setting discounts at less than the USPS cost savings results in the Postal Service performing work that could be performed more efficiently by printers and mail service providers, driving up the end-to-end cost of mail. Additionally, workshare discounts should have a level of predictability since many of the initiatives require major investments by the mailing industry.

LSC COMMUNICATIONS

Thomas J. Quinlan, III – Chairman & Chief Executive Officer
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Objective 2: To create predictability and stability in rates

The requirement that increases in the rates for market dominant products be no more than the rate of inflation (CPI-U) has provided a level of predictability and stability for businesses and nonprofit organizations. Many of our clients' postage spend exceeds 50% of their communication related operating expenses. Additionally, postage increases above the rate of inflation will cause changes in marketing strategies that will likely result in further declines in USPS volume and revenue and accelerate the diversion to electronic content, a much cheaper media channel.

Many of the challenges the Postal Service faces are also experienced in the printing industry. Volume declines, digital diversion, overcapacity and shrinking profit margins have become a business reality. Private industry has reacted by closing facilities, laying off employees and investing in postal related strategies to gain postal efficiencies for their clients. Print prices have been in decline for more than a decade. Without predictable and stable postal rates, a further erosion in the mailing industry is imminent.

Objective 4: To allow the Postal Service pricing flexibility

The existing rate setting system allows for pricing flexibility that is not fully utilized by the Postal Service. Within the rate cap system, there are still variances in rate impacts. There are customers in this last rate change that experienced a rate reduction while others received an increase of twice the rate of inflation. The Postal Service should be able to maximize their revenue gain by strategically using this pricing flexibility.

It is important to note that the rate cap must continue to apply at the class level in order to protect mailers from even greater variances that could be deemed as rate shock. A systemwide price cap would not provide adequate protection for smaller classes of mail, such as Periodicals, because it would allow the Postal Service to impose large rate increases and offset those increases by imposing less-than-inflation increases on larger classes of mail.

Additionally, the law allows for Negotiated Service Agreements yet, the Postal Service has very few within Market Dominant products. It is our belief that successfully pursuing NSA's represents a revenue opportunity that will also help grow mail volume.



Objective 5: To assure adequate revenues, including retained earnings, to maintain financial stability

We believe that the rate cap system has provided adequate revenue to meet controllable and operating costs. PAEA mandated an unachievable 10 year schedule to fully fund retiree health benefits, a requirement that no other federal agency is required to meet. While it is true that liabilities exceed assets by an unsustainable amount, we do not believe it is the burden of ratepayers to fix the situation alone. Congress must do their job to fix the retiree health benefits prefunding.....not the mailers through higher postage rates.

In the decade since PAEA was enacted, we have experienced lower than average inflation, along with a recession. Despite this low inflation, the Postal Service has showed positive controllable income since 2014. Additionally, the temporary exigent surcharge allowed them to weather the impact of the recession and to adjust to a new normal.

It is our belief that imposing higher than inflation rate increases will cause undue harm to the entire mailing community and that the current rate setting process and procedures should remain unchanged. As you deliberate your next course of action, please consider supporting our position. Thank you.

Sincerely,

Thomas J. Quinlan
Chairman and Chief Executive Officer

Cc: Anita Pursley, Vice President Postal Affairs